



REPORT EVALUATING THE METHODOLOGY USED TO SET FUNDING GUIDELINES

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Maryland Higher Education Commission
Division of Finance Policy

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And
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Introduction

The 2003 Joint Chairmen's report requires the Maryland Higher Education Commission (MHEC) to submit a report that evaluates the assumptions and methodology used to calculate funding guidelines by comparing actual fiscal 2001 peer data with the estimates used to determine fiscal 2001 funding guidelines. The language of the Committee Narrative is as follows:

.....Provided that the agency conducts a study to evaluate the methodology for setting funding guidelines for public four-year institutions. The study shall compare the actual fiscal 2001 funding for national peer institutions with that estimated for the purpose of determining fiscal 2001 funding guidelines. It should also determine guideline attainment, relative to actual 2001 funding for peer institutions. The agency shall report to the General Assembly on its findings, including any proposed adjustments in the methodology arising from the comparison.

This report addresses the committees' concerns by 1) recalculating fiscal 2001 guidelines using 2001 actual data; 2) comparing the results using the actual data to the guidelines adopted for fiscal 2001; 3) determining guideline attainment relative to actual 2001 funding for peer institutions; and 4) considering recommendations for adjustments in the funding guideline methodology.

Background

In September 1999, the Maryland Higher Education Commission adopted a peer-based model for the establishment of funding guidelines for the institutions of the University System of Maryland. The Commission developed these guidelines in consultation with representatives from the public campuses, the Department of Legislative Services, and the Department of Budget and Management. The funding guidelines are designed to inform the budget process by providing both a funding standard and a basis for comparison between institutions.

The basic concept of the funding guidelines is to identify peer institutions (i.e. 'funding peers') that are similar to the Maryland institution (i.e. "home" institution) in mission, size, program mix, enrollment composition, and other defining characteristics. After identifying a current set of peers, the financial characteristics of the peer institutions are analyzed to determine the resources available (unrestricted tuition and mandatory fee revenue and state general fund appropriations) per full-time equivalent student (FTE). The overall goal is to fund Maryland's institutions at the 75th percentile of their funding peer institutions. The Commission develops annual funding guidelines for each Maryland institution by multiplying the resources per FTE at the 75th percentile (adjusted for inflation) times the projected enrollment and subtracting the Maryland institutions' projected unrestricted tuition and mandatory fee revenue. Appendix A contains a detailed description of the funding guidelines methodology.

Since its inception, the Commission, in consultation with representatives from the University System of Maryland, the Department of Legislative Services, the Department of Budget and

Management, and Morgan State University, refined the funding guidelines methodology. The Commission determined the appropriate timing for regular reassessment of funding peers (every three years) and established criteria for making adjustments to an institution's peer group that is not in the normal established cycle. The Commission also identified key performance indicators to assess institutional performance and developed criteria to measure performance.

In addition, the Commission has modified funding guidelines for the University of Maryland Eastern Shore (UMES), the University of Maryland University College (UMUC), and the University of Baltimore (UB). The adjustment for UMES reflects the university's mission and recognizes its status as an 1890 land-grant institution. UMUC's adjustment creates a funding guideline that is consistent with other University System of Maryland institutions. Changes to this guideline include counting each part-time student as one-third full-time equivalent student, eliminating the deflator, and excluding all non-Maryland online enrollments and revenue. The modification for UB takes into consideration the lack of national data on lower and upper division undergraduate enrollment. Despite these modifications, the overall methodology for determining funding guidelines has remained the same since fiscal 2001 and comparisons in this analysis are based on the institutions' original funding guidelines.

Issue

Although funding guidelines provide a funding standard and basis for comparison between Maryland institutions and their peer institutions, there are limitations to funding guidelines that inhibit its ability to reflect changes in the operating budgets of Maryland institutions and their national peer institutions. For example, the Commission calculates funding guidelines each year using the most recent data available. These data come from the National Center for Education Statistics' Integrated Postsecondary Education Database System (IPEDS) and are the only national source of data available for all higher education institutions nationwide. Although IPEDS is a comprehensive and valuable data system, the data provided are four years old. To compensate for this four-year difference, the Commission uses an inflation factor, the Higher Education Price Index (HEPI), a widely used price index which measures the price level of goods and services used specifically by colleges and universities to maintain their current education operations.¹

There are, however, concerns that funding guidelines do not reflect reality. Changes that occur at peer institutions such as higher than usual tuition and fee increases or unexpected reductions in State support among peer institutions are not reflected in the funding guidelines. Furthermore, institutions in other states may experience budget reductions and/or tuition increases earlier and in greater magnitude than what has occurred among Maryland institutions. The HEPI does not account for these anomalies.

¹ The Higher Education Price Index is published annually by the Research Associates of Washington. See Research Associates of Washington, "Inflation Measures for Schools, Colleges, and Libraries." Available on-line at www.rsassoc.com.

Analysis of Fiscal 2001 Guidelines

To examine the accuracy of funding guidelines, the Commission recalculated fiscal 2001 guidelines using 2001 actual data and compared these results to the estimated guidelines adopted for fiscal 2001. In addition, the Commission used actual data to determine fiscal 2001 guideline attainment. Table 1 below compares estimated funding guidelines to actual funding guidelines for the University System of Maryland Institutions (USM) and Morgan State University. Although funding guidelines were not used for Morgan State University until fiscal 2003, Morgan's funding guideline is included in this analysis for comparative purposes.

Table 1. FY 2001 Funding Guideline Comparison: Difference Between Actual and Estimated 2001 Funding Guidelines

	FY 2001		Actual and Estimated Variation		Guideline Attainment	
	Estimate	Actual	Difference	%	Estimated	Actual
Bowie State University	\$ 22,722,424	\$ 24,366,032	\$ 1,643,608	7%	94%	87%
Coppin State College	21,123,832	25,115,125	3,991,293	19%	88%	74%
Frostburg State University	29,760,666	33,362,222	3,601,556	12%	89%	80%
Salisbury University	31,382,215	36,599,416	5,217,201	17%	90%	77%
Towson University	70,341,825	77,075,661	6,733,836	10%	91%	83%
University of Baltimore	26,675,000	25,930,000	(745,000)	-3%	88%	91%
UM Baltimore	173,054,547	178,267,145	5,212,598	3%	81%	78%
UM Baltimore County	82,052,448	99,847,025	17,794,577	22%	81%	67%
UM Biotechnology Institute	16,847,571	19,225,864	2,378,293	14%	85%	74%
UM Center for Env. Science	14,405,291	16,608,132	2,202,841	15%	89%	77%
UM College Park	373,552,230	428,912,793	55,360,563	15%	89%	78%
UM Eastern Shore	22,952,541	19,396,904	(3,555,637)	-15%	98%	116%
UM University College	21,142,538	35,552,594	14,410,056	68%	64%	38%
USM Total	\$ 906,013,128	\$ 1,020,258,913	\$ 114,245,785	13%	88%	78%
Morgan State University	\$ 50,156,138	\$ 50,820,821	\$ 664,683	1%	96%	94%

Overall, the actual funding guidelines are higher than estimated for both the University System of Maryland and Morgan State University. That is, the predicted funding guidelines underestimated the actual guidelines. The actual funding guidelines exceed the estimated funding guidelines by 13 percent for the University System of Maryland and by 1 percent for Morgan State University. As a result, attainment (e.g., State general fund appropriation as a percent of funding guidelines) for the fiscal 2001 funding guideline decreases from 88 percent to 78 percent for USM and from 96 percent to 94 percent for Morgan.

The actual funding guidelines exceed estimated funding guidelines because of increases in enrollment at Maryland institutions and increases in the total resources (e.g., unrestricted tuition and mandatory fee revenue and state general fund appropriations) per full-time equivalent student at the peer institutions. There were, however, two institutions with estimated funding guidelines that exceed the actual funding guidelines. The actual funding guidelines for both the University of Maryland Eastern Shore and the University of Baltimore are lower than projected.

In both instances, this overestimation is due to lower than expected enrollment at both institutions (Table 2).

Table 2 below compares actual enrollment to the estimated enrollment. Overall, the actual enrollment is 1 percent higher than estimated for USM institutions and 6 percent lower than expected for Morgan State University. Institutions that have higher than projected enrollment include University of Maryland University College (11 percent), Salisbury University (8 percent), and the University of Maryland, College Park (4 percent). Institutions with lower than projected enrollment include the University of Maryland Eastern Shore (14 percent), Coppin State College (8 percent), and Bowie State University (4 percent).

Table 2. FY 2001 Funding Guideline Comparison: Actual and Estimated Enrollment

	FY 2001		Difference	%
	Estimate	Actual		
Bowie State University	3,365	3,223	(142)	-4%
Coppin State College	2,984	2,757	(227)	-8%
Frostburg State University	4,517	4,627	110	2%
Salisbury University	5,185	5,574	389	8%
Towson University	13,722	13,747	25	0%
University of Baltimore	5,335	5,186	(149)	-3%
UM Baltimore	11,771	11,137	(634)	-5%
UM Baltimore County	8,517	8,941	424	5%
UM College Park	27,948	29,008	1,060	4%
UM Eastern Shore	3,394	2,906	(488)	-14%
UM University College	8,242	9,172	930	11%
USM Total	94,980	96,278	1,298	1%
Morgan State University	5,868	5,496	(372)	-6%

Summary

Overall, the predicted funding guidelines underestimated the actual guidelines for fiscal 2001. The actual fiscal 2001 funding guidelines exceed the estimated fiscal 2001 funding guidelines by 13 percent for the University System of Maryland and by 1 percent for Morgan State University. This underestimation is due, in part, to an increase in enrollment at Maryland institutions and an increase in the total resources (e.g., unrestricted tuition and mandatory fee revenue and state general fund appropriations) per FTE at Maryland's peer institutions.

Proposed Changes in the Funding Guidelines Methodology

There are two changes in the funding guidelines methodology that should be considered. These proposed modifications are based on the availability of data used to calculate funding guidelines and do not represent significant adjustments to the existing guidelines.

New Financial Reporting Requirements

The Governmental Accounting Standards Board (GASB) now requires all state and local governments including public colleges and universities to modify the way they report their finances to the public. Public colleges and universities are no longer required to distinguish between unrestricted and restricted funds. Therefore, unrestricted revenue data are no longer available from IPEDS.

The current funding guideline model, however, is based on unrestricted revenue (e.g., unrestricted tuition and mandatory fee revenue and unrestricted state appropriations). Because of this change in financial reporting standards, the Commission recommends modifying the funding guidelines so that the resources available per student include the total tuition and mandatory fee revenue and state general fund appropriations per FTE. The Commission will then multiply the total resources per student at the 75th percentile times the projected enrollment and subtract the Maryland institutions' projected total tuition and mandatory fee revenue.

An analysis of the impact of this new financial reporting requirement shows little or no significant difference between guidelines based on unrestricted revenue and guidelines based on total revenue for the vast majority of the institutions (Table 5). Frostburg State University is the only institution that has a change in revenue which results in a 7 percent decline in guideline attainment.

Table 5. Impact of New Financial Reporting Requirements on Funding Guidelines

	FY 2001 Funding Guidelines			Actual Guideline Attainment	
	Based On	Based On	%	Based On	Based On
	Unrestricted Revenue	Total Revenue	Change	Unrestricted Revenue	Total Revenue
Bowie State University	\$ 24,366,032	\$ 24,417,600	0.2%	87%	87%
Coppin State College	25,115,125	25,115,125	0.0%	74%	74%
Frostburg State University	33,362,222	36,332,576	8.9%	80%	73%
Salisbury University	36,599,416	36,772,210	0.5%	77%	76%
Towson University	77,075,661	77,075,661	0.0%	83%	83%
University of Baltimore	25,930,000	25,930,000	0.0%	91%	91%
UM Baltimore	178,267,145	180,784,107	1.4%	78%	77%
UM Baltimore County	99,847,025	100,589,128	0.7%	67%	66%
UM Biotechnology Institute	19,225,864	19,441,710	1.1%	74%	73%
UM Center for Env. Science	16,608,132	16,794,588	1.1%	77%	76%
UM College Park	428,912,793	433,728,121	1.1%	78%	77%
UM Eastern Shore	19,396,904	19,568,358	0.9%	116%	115%
UM University College	35,552,594	36,378,074	2.3%	38%	37%
USM Total	\$ 1,020,258,913	\$ 1,032,927,258	1.2%	78%	77%
Morgan State University	\$ 50,820,821	\$ 51,799,109	1.9%	94%	92%

Higher Education Price Index

The funding guidelines use the Higher Education Price Index (HEPI) as the annual inflation factor and the Commission has used an estimated HEPI of 3.2 percent since calculating fiscal 2001 funding guidelines. The Commission has used estimated HEPI because of the irregular

availability of this index from the Research Associates of Washington. Over the past two years, however, the Research Associates has provided updates to HEPI and has indicated that they will continue to update this index annually.

Overall, the annual estimate of 3.2 percent for the HEPI is not consistent with the actual HEPI (Table 6). The Commission recommends updating the HEPI annually and using a three-year rolling average to estimate the HEPI used to inflate the funding guidelines.

Table 6. Inflation Indices: FY 1996-2003

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Higher Education Price Index	2.9	3.2	3.5	2.4	4.1	4.8	3.8	4.2
Consumer Price Index	2.8	2.3	1.7	2.0	3.7	3.2	1.1	2.2
Implicit Price Deflator	2.4	2.6	2.4	2.1	4.2	4.2	1.1	2.8
Annual Increase in State Funding for Higher Education Operating Expenses	1.7	3.6	4.9	6.2	6.9	7.3	6.9	5.1
Annual Increase in Resident Undergraduate Tuition and Fees at Public Four-Year Institutions	5.9	4.8	4.2	3.7	3.9	4.7	7.0	8.7

Notes: The Consumer Price Index and Implicit Price Deflator for FY 2003 are estimates.

Sources: Chronicle of Higher Education; Research Associates of Washington; U.S. Department of Labor, Bureau of Labor Statistics; DRI-WEFA

Appendix A. Higher Education Funding Guidelines

I. Authority

Chapter 515 of the Acts of 1999 and Section 11-105 (g) (4) of the Education Article of the Maryland Annotated Code require the Maryland Higher Education Commission to develop operating funding guidelines based on current and aspirational peer comparisons and other appropriate factors. These guidelines must be developed in consultation with all segments of higher education, including the presidents of home institutions.

II. Definitions

- A. "Adjusted full-time equivalent student enrollment" means a proportionate number of students used to determine the appropriate level of State support for each home institution, as determined in Section IV.
- B. "Aspirational peers" means a set of at least five institutions selected by each home institution to determine the adequacy of funding and performance. Aspirational peers are those institutions that the home institution aspires to emulate in performance and reputation.
- C. "Cluster analysis" means the mathematical process of determining, on the basis of data, those institutions that are closest to the home institution on key variables taken collectively. The variables include program offerings, size, location, student mix, and diversity.
- D. "Current funding peers" means a set of institutions identified through a series of cluster analyses that closely resemble the home institution on a series of variables such as program offerings, size, location, student mix, and diversity.
- E. "Eligible home institution" means a home institution that meets or exceeds the performance of its ten current accountability peers based on selected accountability factors.
- F. "Historically Black Institutions" means the following public senior higher education institutions:
 - 1. Bowie State University;
 - 2. Coppin State College;
 - 3. University of Maryland Eastern Shore; and
 - 4. Morgan State University

G. “Home institution” means one or more of the following public senior higher education institutions under the jurisdiction of the Board of Regents of the University System of Maryland and the Board of Regents of Morgan State University:

1. University of Maryland, Baltimore;
2. University of Maryland, College Park;
3. Bowie State University;
4. Towson University;
5. University of Maryland Eastern Shore;
6. Coppin State College;
7. University of Baltimore;
8. Frostburg State University;
9. Salisbury State University;
10. University of Maryland University College;
11. University of Maryland Baltimore County; and
12. Morgan State University.

H. “Performance indicators” means a set of performance indicators selected by the presidents of each home institution and approved by the Maryland Higher Education Commission for the purpose of comparing performance against current and aspirational peers.

I. “Performance peers” means a list of at least ten current funding peers selected by each home institution’s president and validated by the Maryland Higher Education Commission.

J. “Projected tuition and mandatory fees” means the revenue projections for each home institution as approved by the institution’s governing board and based on estimated tuition revenue and mandatory fees such as application fees, graduation fees, laboratory fees, students fees, and other mandatory fees as determined by the Maryland Higher Education Commission.

K. “Resources per full-time equivalent student” means unrestricted state appropriations and tuition and fee revenues (as reported annually by the Integrated Postsecondary Data Systems Finance Survey) divided by the number of adjusted full-time equivalent students.

L. “Variation” means a single cluster analysis using specified variables. The variables used in each variation are provided in Section V paragraph C.

III. Scope and Applicability

These funding guidelines shall apply to:

A. All public senior higher education institutions and research centers under the jurisdiction of the University System of Maryland Board of Regents:

1. University of Maryland, Baltimore;
2. University of Maryland, College Park;
3. Bowie State University;
4. Towson University;
5. University of Maryland Eastern Shore;
6. Coppin State College;
7. University of Baltimore;
8. Frostburg State University;
9. Salisbury State University;
10. University of Maryland University College;
11. University of Maryland Baltimore County;
12. University of Maryland Center for Environmental Science; and
13. University of Maryland Biotechnology Institute.

B. Morgan State University

IV. Adjusted Full-Time Equivalent Student Enrollment

A. The adjusted full-time equivalent student enrollment shall be used to calculate the resources per full-time equivalent student for current funding peers and aspirational peers. The resources per full-time equivalent student shall, in turn, be used to calculate the level of State general fund support for home institutions.

B. Except as otherwise provided in this section, the adjusted full-time equivalent student enrollment shall be based on fall headcount enrollment data, taken from the Integrated Postsecondary Data Systems national database, according to the following formula:

$$\text{adjusted FTE students} = \text{full-time students} + 1/3 \text{ part-time students.}$$

C. The adjusted full-time equivalent student enrollment for the University of Baltimore and its peer institutions shall be weighted to reflect undergraduates (1.0), graduate students (1.8), and professional students (1.8).

D. The adjusted full-time equivalent student enrollment for the University of Maryland, College Park and its aspirational peers shall be weighted to reflect the higher cost of medical programs. One medical student shall equal four full-time equivalent students.

E. The adjusted full-time equivalent student enrollment for the University of Maryland, Baltimore and its composite peers shall be weighted to reflect the full instructional cost ratios per full-time equivalent student. Each first professional student shall be equal to four full-time equivalent students.

F. The adjusted full-time equivalent student enrollment for the University of Maryland University College and its peer institutions shall be based on fall headcount enrollment data, taken from the Integrated Postsecondary Data Systems national database, reduced by out-of-state online enrollments as reported by the institution, according to the following formula:

$$\text{adjusted FTE students} = (\text{full-time students} + 1/3 \text{ part-time students})$$

G. The Maryland Higher Education Commission shall annually project future enrollment for each home institution based on its annual enrollment projections in accordance with this section.

V. Selection of Current Peers

A. Current peers shall be identified for each home institution except for the University of Maryland, College Park, the University of Maryland, Baltimore, the University of Maryland Center for Environmental Science, and the University of Maryland Biotechnology Institute.

B. Current peers institutions shall be selected from:

1. public senior higher education institutions; and
2. within the same Carnegie Classification as the home institution.

C. Current peers shall be identified using the following six cluster variations:

1. Variation I shall contain the following nine variables:

- a. Total unrestricted revenues minus state appropriations per full-time equivalent student;
- b. Total headcount enrollment;
- c. Total FTE enrollment;
- d. Graduate and first professional students as % of total headcount enrollment;

- e. Number of baccalaureate degrees;
 - f. Number of master's degrees;
 - g. Number of doctoral degrees;
 - h. Number of first professional degrees; and
 - i. African-American, Hispanic, Native American students as % of total headcount enrollment.
2. Variation II shall contain the following eight variables:
- a. Total headcount enrollment;
 - b. Total FTE enrollment;
 - c. Graduate and first professional students as % of total headcount enrollment;
 - d. Number of baccalaureate degrees;
 - e. Number of master's degrees;
 - f. Number of doctoral degrees;
 - g. Number of first professional degrees; and
 - h. African-American, Hispanic, Native American students as % of total headcount enrollment.
3. Variation III shall contain the following five variables:
- a. Total headcount enrollment;
 - b. Part-time students as % of total enrollment;
 - c. Baccalaureate degrees as % of total degrees;
 - d. African-American Hispanic, Native American students as % of total headcount enrollment; and
 - e. Total unrestricted revenues minus state appropriations per full-time equivalent student.
4. Variation IV shall contain the following four variables:
- a. Total headcount enrollment;
 - b. Part-time students as % of total enrollment;
 - c. Baccalaureate degrees as % of total degrees; and
 - d. African-American Hispanic, Native American students as % of total headcount enrollment.
5. Variation IVA shall apply to historically black institutions and shall contain the following three variables:
- a. Total headcount enrollment;
 - b. Part-time students as % of total enrollment; and
 - c. Baccalaureate degrees as % of total degrees.

6. Variation V shall contain the following eighteen variables:

- a. Total FTE enrollment;
- b. Engineering degrees as % of total degrees awarded;
- c. Physical science degrees as % of total degrees awarded;
- d. Math and computer science degrees as % of total degrees awarded;
- e. Life science degrees as % of total degrees awarded;
- f. Agricultural sciences degrees as % of total degrees awarded;
- g. Biological sciences degrees as % of total degrees awarded;
- h. Medical sciences degrees as % of total degrees awarded;
- i. Other life sciences degrees as % of total degrees awarded;
- j. Psychology degrees as % of total degrees awarded;
- k. Social science degrees as % of total degrees awarded;
- l. Humanities degrees as % of total degrees awarded;
- m. Art and music degrees as % of total degrees awarded;
- n. Architecture degrees as % of total degrees awarded;
- o. Education degrees as % of total degrees awarded;
- p. Business degrees as % of total degrees awarded;
- q. Law degrees as % of total degrees awarded; and
- r. Distance in miles to closest Metropolitan Statistical Area of at least 250,000.

D. The twenty institutions closest to the home institution based on each variation shall be identified as the home institution's current funding peers.

E. Exceptions

University of Maryland College Park

UMCP shall use five aspirational peers for funding guidelines. Funding will be based on the average of the aspirational peers.

University of Maryland, Baltimore

UMB will use a group of five composite peers, selected by the university in consultation with the University System of Maryland and the Maryland Higher Education Commission. Funding will be based on the average of the composite peers.

University of Maryland Biotechnology Institute and Center for Environmental Science

The funding guidelines for the UMBI and UMCES shall be equal to the institution's prior year appropriation multiplied by the lower of (a.) the percentage increase in the funding guideline computed for the University of Maryland College Park, or (b.) the average percentage increase in the funding guidelines for all University System of Maryland institutions.

Morgan State University

Current peers for Morgan State University shall be selected from the public senior universities and within the same Carnegie classification or one classification higher than the university. Current peers shall be identified using the six cluster variations listed in Section V.C. The institutions will be ranked according to their average variation from the six variations.

A group of institutions will be chosen based on agreement between Morgan State University and the Maryland Higher Education Commission. They are:

1. Alabama University, Huntsville;
2. Florida A&M University;
3. University of Massachusetts, Dartmouth;
4. University of Massachusetts, Lowell;
5. Michigan Technological University;
6. Oakland University;
7. Jackson State University;
8. The College of New Jersey;
9. CUNY City College;
10. North Carolina A&T State University;
11. Tennessee State University;
12. Texas A&M University, Kingsville.

University of Maryland Eastern Shore

Current peers for UMES shall be selected from the public senior universities and within the same Carnegie classification. Current peers shall be identified using the six cluster variations listed in Section V.C. plus a research variation. This research variation shall contain the following two variables:

- a. Total headcount enrollment; and
- b. Research expenditures per FTE.

The twenty-four institutions closest to UMES based on each variation shall be identified. The total group is reduced to the twenty-four institutions that best reflect UMES' needs as an 1890 land-grant university with a research mission and offering doctoral programs. They are:

1. Alabama A&M University;
2. Troy State University, Main;
3. California State University, Bakersfield;
4. Eastern Connecticut State University;
5. Albany State University;
6. Fort Valley State University;
7. Indiana University, Northwest;
8. Morgan State University;
9. Bemidji State University;

10. Alcorn State University;
11. Jackson State University;
12. North Carolina A&T State University;
13. University of North Carolina, Pembroke;
14. College of New Jersey;
15. Eastern New Mexico State University;
16. New Mexico Highlands University;
17. SUNY College at Fredonia;
18. Mansfield University of Pennsylvania;
19. Pennsylvania State University, Harrisburg;
20. South Carolina State College;
21. Prairie View A&M University;
22. University of Texas, Permian Basin;
23. University of Texas, Tyler;
24. Virginia State University.

VI. Selection of Performance Peers

- A. The president of each home institution shall select ten peers from the list of current funding peers for the purpose of comparing performance.
- B. The president of each home institution shall provide written justification to the Maryland Higher Education Commission for the ten peers selected in paragraph A of this section.
- C. The Maryland Higher Education Commission shall validate the ten performance peers selected by each president.
- D. Performance peers for Morgan State University, the University of Maryland College Park, and the University of Maryland, Baltimore shall be the entire group of current peers.

VII. Selection of Aspirational Peers

- A. The president of each home institution shall select at least five aspirational peers consistent with the institution's approved mission statement and the State Plan for Higher Education.
- B. The president of each home institution shall provide written justification for the aspirational peers selected in paragraph A of this section.
- C. The Maryland Higher Education Commission shall approve the aspirational peers selected by the president of each home institution.

VIII. Resources per Full-Time Equivalent Student for Current Peers

- A. The Maryland Higher Education Commission shall annually compute the 75th percentile of resources per full-time equivalent student appropriated to current peers of each home institution, except for the University of Maryland Baltimore and College Park, and based on the latest national data.
- B. The resources per full-time equivalent student identified in paragraph A of this section shall be adjusted using the Higher Education Price Index four-year compound annual rate and shall be used to estimate the funding gap between each home institution and its current funding peers.

IX. Resources per Full-Time Equivalent Student for Aspirational Peers

- A. The Maryland Higher Education Commission shall annually compute the unweighted average percentile of resources per full-time equivalent student appropriated to aspirational peers of each home institution based on the latest national data.
- B. The resources per full-time equivalent student identified in paragraph A of this section shall be adjusted using the Higher Education Price Index four-year compound annual rate and shall be used to estimate the funding gap between each home institution and its aspirational funding peers.

X. Computation of Funding Guidelines Based on Current Peer Comparisons

- A. The Maryland Higher Education Commission shall annually compute funding guidelines based on current funding peer comparisons for each home institution by multiplying the adjusted resources per full-time equivalent student as determined in Section VIII for all current peers by the projected enrollment as determined in Section IV paragraph F and subtracting the projected tuition and mandatory fees.
- B. Notwithstanding paragraph A, the funding guidelines per full-time equivalent student at each home institution shall not be less than \$5,000. except for the University of Maryland, University College.

XI. Computation of Funding Guidelines Based on Aspirational Peer Comparisons

The Maryland Higher Education Commission shall annually compute funding guidelines based on aspirational peer comparisons for eligible home institutions by multiplying the adjusted resources per full-time equivalent student as determined in Section IX for all aspirational peers by the projected enrollment as determined in Section IV paragraph F and subtracting the projected tuition and mandatory fees.

XII. Funding Guidelines for FY 2001

Except as provided in Sections XIV, XV, and XVI, in fiscal year 2001, the funding guidelines for each home institution shall be equal to the result obtained in Section X.

XIII. Funding Guidelines for FY 2002 and thereafter

A. Except as provided in Sections XIV, XV, and XVI and paragraph B of this section, in fiscal 2002 and thereafter, the funding guidelines for each home institution shall be based on the result obtained in Section X.

B. 1. If a home institution's performance on the accountability factors identified in Section XVII meets or exceeds the performance of its current performance peers, the home institution's funding guidelines shall be computed based on current and aspirational peer comparisons as computed in Section X and XI, respectively.

2. Aspirational peer comparisons will be integrated into the funding guidelines for eligible home institutions on an incremental basis beginning in fiscal year 2002 according to the following weights:

First Eligible Year: current peer at the 75th percentile = 90% weight
 aspirational peers at the unweighted average = 10% weight

Second Eligible Year: current at the 75th percentile = 80% weight
 aspirational peers at the unweighted average = 20% weight

Third Eligible Year: current peer at the 75th percentile = 70% weight
 aspirational peers at the unweighted average = 30% weight

3. The integration of aspirational peer comparisons into the funding guidelines shall be capped at no more than 30% for each home institution.

XIV. Funding Guidelines for the University of Maryland, College Park

In fiscal year 2001 and thereafter, the funding guidelines for the University of Maryland, College Park shall equal the result obtained in Section XI.

XV. Funding Guidelines for the University of Maryland Biotechnology Institute and the University of Maryland Center for Environmental Science

- A. Except as provided in paragraph B of this section, in fiscal year 2001 and thereafter, the funding guidelines for the University of Maryland Biotechnology Institute and the University of Maryland Center for Environmental Science shall be equal to the institution's prior year appropriation as determined in paragraph C of this Section multiplied by the percentage increase in the funding guidelines computed for the University of Maryland College Park in accordance with Section XIV.
- B. In any fiscal year that the percentage increase in the funding guidelines computed for the University of Maryland College Park in accordance with Section XIV is greater than the average percentage increase in the funding guidelines for all University System of Maryland institutions, the funding guidelines for the University of Maryland Biotechnology Institute and the University of Maryland Center for Environmental Science shall be equal to the institution's prior year appropriation multiplied by the average percentage increase in the funding guidelines for all University System of Maryland institutions.
- C. Prior Year appropriations for the University of Maryland Biotechnology Institute and the University of Maryland Center for Environmental Science shall be adjusted to reflect on-going operating appropriations and not initial start-up appropriations for new programs or other one-time initiatives.

XVI. Funding Guidelines for the University of Maryland, Baltimore

- A. In fiscal year 2001 and thereafter, the funding guidelines for the University of Maryland, Baltimore shall be based on the unweighted average percentile of five composite peers selected by the six professional schools utilizing defining characteristics such as: size, location, programmatic structure, national reputation, and other key variables.

- B. Composite peers shall be selected from the Carnegie Research I and the Specialized-Medical institution classifications. Each peer selected shall contain a medical school and at least three of the other five professional schools.
- C. The Maryland Higher Education Commission shall annually compute the unweighted average percentile of resources per full-time equivalent student appropriated to composite peers based on the latest national data.
- D. The Maryland Higher Education Commission shall annually compute funding guidelines based on composite peer comparisons for eligible home institutions by multiplying the adjusted resources per full-time equivalent student by the projected enrollment as determined in Section IV paragraph F and subtracting the projected tuition and mandatory fees.

XVII. Performance Indicators

- A. The Maryland Higher Education Commission shall approve the performance indicators developed and proposed by each home institution, in consultation with the presidents and the University System of Maryland.
- B. The performance indicators shall be in line with the Managing For Results accountability process with an emphasis on outcome-oriented indicators.
- C. The benchmarks for the performance indicators shall be the home institution's ten current performance peers as determined in Section VI and/or approved aspirational peers, if applicable.
- D. The Maryland Higher Education Commission shall prepare a report annually on each home institution's performance, in accordance with this section.
- E. If the home institution's performance on several key performance indicators is below the performance of its peers, the institution's president and governing board shall submit a report to the Maryland Higher Education Commission which shall include an analysis of the institution's deficiencies and a strategic plan to improve performance.

XVIII. Efficiency and Cost Containment

Each home institution shall submit a report to the Maryland Higher Education Commission that focuses on the following cost containment classifications:

- A. Cost Savings: The home institution shall report any item that represents a reduction in current operating expenses.

- B. Strategic Reallocation: The home institution shall report any item that redirects current resources toward a campus priority or critical need.
- C. Cost Avoidance: The home institution shall report any item that meets the following two conditions. First, the item represents a potential cost for a demonstrable unmet need. Second, the cost is avoided and the need is satisfied.
- D. Revenue Enhancement: The home institution shall report on any enhanced funding streams that will add to the fund balance. If additional revenue is created and used for a spending purpose, the amount shall fall into one of the previous categories discussed above.